

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6320

BILL NUMBER: SB 101

NOTE PREPARED: Nov 22, 2005

BILL AMENDED:

SUBJECT: Insulation Income Tax Deduction.

FIRST AUTHOR: Sen. Becker

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill increases the individual Adjusted Gross Income (AGI) Tax deduction for installation of new insulation from \$1,000 to \$2,000.

Effective Date: January 1, 2006 (retroactive).

Explanation of State Expenditures: The Department of State Revenue (DOR) will incur additional expenses to revise tax forms, instructions, and computer programs to reflect the increase in the insulation deduction. The DOR's current level of resources should be sufficient to implement this change.

Explanation of State Revenues: The bill would increase the individual Adjusted Gross Income (AGI) Tax deduction for costs relating to the installation of insulating items in residences from \$1,000 to \$2,000. The revenue loss due to the increase in the maximum insulation deduction could potentially total about \$912,000 in FY 2007, with the revenue loss estimated to increase by about 2.8% annually thereafter.

Background Information: Under current statute, an individual taxpayer is entitled to a deduction from AGI for the cost of installing new upgraded (not replacement) insulation, weather stripping, double-pane windows, storm doors, or storm windows into his or her residence. The deduction the taxpayer is entitled to is equal to the lesser of \$1,000 or the labor and materials cost of the installation. To qualify for the deduction, the insulating items must be installed in a part of the residence constructed at least three years prior to the year in which the installation is completed.

In tax year 2003, 46,568 individual taxpayers claimed insulation deductions totaling \$33.6 M. This translates

into a revenue loss of approximately \$1.14 M. The number of filers claiming the insulation deduction and the total deductions claimed has increased in the long run by about 2.8% annually. Historically, approximately 53% of filers claiming the insulation deduction have claimed the maximum \$1,000 deduction. The revenue loss assumes that the historic growth rate in filers claiming the deduction persists and assumes that roughly half of the filers claiming the deduction each year will have sufficient installation costs to claim a maximum \$2,000 deduction.

Since the deduction is effective beginning in tax year 2006, the fiscal impact would begin in FY 2007. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of the revenue is deposited in the Property Tax Replacement Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: Because the increase in the insulation deduction proposed in the bill would serve to decrease taxable income, counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) may, as a result, experience an indeterminable decrease in revenue from these taxes.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties with a local option income tax.

Information Sources: OFMA Income Tax database.

Fiscal Analyst: Jim Landers, 317-232-9869.